



## HEXZA CORPORATION BERHAD (8705-K)

### Interim Report on Consolidated Results for the First Quarter ended 30<sup>th</sup> September 2012

#### A NOTES TO THE INTERIM FINANCIAL REPORT

##### A1. Accounting policies and method of computation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS 134”) and the applicable disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad.

The audited financial statements of the Group for the financial year ended 30<sup>th</sup> June 2012 were prepared in accordance with Financial Reporting Standards (“FRS”). As the requirements under FRS and MFRS are similar, the significant accounting policies adopted in preparing the condensed interim financial statements are consistent with those of the audited financial statement for the financial year ended 30<sup>th</sup> June 2012 except for the following:

##### a) Business combination

MFRS 1 provides the option to apply MFRS 3 Business Combinations, prospectively from the date of transition or from a specific date prior to the date of transition. This provides relief from full retrospective application of MFRS 3 which would require restatement of all business combinations prior to the date of transition.

##### Acquisition before date of transition

The Group has elected to apply MFRS 3 prospectively from the date of transition. In respect of acquisition prior to the date of transition,

- (i) The classification of former business combinations under FRS is maintained;
- (ii) There is no re-measurement of original fair values determined at the time of business combination; and
- (iii) The carrying amount of goodwill recognised under FRS is not adjusted.

##### b) Property, plant and equipment

The Group has previously adopted the MASB Approved Accounting Standard IAS 16 (Revised) Property, Plant and Equipment which was effective for accounting periods ending on or after 1<sup>st</sup> September 1998. Except for certain leasehold land of the Group, which are carried at valuation, all other property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The leasehold land of the Group has not been revalued since they were first revalued in 1985 and the Group had not adopted a policy of regular revaluation of the land.



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#### A1. Accounting policies and method of computation (continued)

##### b) Property, plant and equipment (continued)

Upon transition to MFRS, the Group has elected to measure all its property, plant and equipment using the cost model under MFRS 116, Property, Plant and Equipment. At the date of transition to MFRS, the Group elected to apply the “deemed cost” transition exemption and use the fair value of leasehold land as deemed cost. The financial impact is as follows:

- (i) Increase of RM15.76 million and RM15.47 million for leasehold land was recognised in property, plant and equipment as of 1<sup>st</sup> July 2011 and 30<sup>th</sup> June 2012 respectively;
  - (ii) Reclassification of revaluation surplus of RM15.76 million to retained earnings as of 1<sup>st</sup> July 2011; and
  - (iii) Increase in deferred taxation liability of RM3.94 million and RM3.87 million upon revaluation of the leasehold land and adjustment of RM3.94 million and RM3.87 million to retained earnings as of 1<sup>st</sup> July 2011 and 30<sup>th</sup> June 2012 respectively.
- c) The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are as follows:

##### (i) Reconciliation of Statement of Financial Position as at 1<sup>st</sup> July 2011

	As previously <u>reported</u> RM'000	Effect of Transition to <u>MFRS</u> RM'000	<u>As restated</u> RM'000
<u>As at 1<sup>st</sup> July 2011</u>			
Property, Plant and Equipment	60,663	15,756	76,419
Retained earnings	100,070	11,022	111,092
Non-controlling interests	7,064	795	7,859
Deferred Taxation	7,093	3,939	11,032

##### (ii) Reconciliation of Statement of Financial Position as at 30<sup>th</sup> June 2012

	As previously <u>reported</u> RM'000	Effect of Transition to <u>MFRS</u> RM'000	<u>As restated</u> RM'000
<u>As at 30<sup>th</sup> June 2012</u>			
Property, Plant and Equipment	56,077	15,469	71,546
Retained earnings	98,213	10,826	109,039
Non-controlling interests	6,707	776	7,483
Deferred taxation	6,530	3,867	10,397



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#### **A2. Audit report**

The audit report for the financial year ended 30<sup>th</sup> June 2012 was not subject to any qualification.

#### **A3. Seasonal or cyclical factors**

The business operations of the Group were not significantly affected by any seasonal or cyclical factors.

#### **A4. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence**

There are no items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence for the current financial quarter.

#### **A5. Changes in estimates of amounts reported**

There were no changes in the estimates of amounts reported previously that have a material effect in the current quarter.

#### **A6. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities**

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial period to date.

#### **A7. Dividend paid**

There was no dividend paid during the quarter under review. The proposed final dividend by the Board of Directors of 8% less tax plus 2% tax-exempt in respect of the financial year ended 30<sup>th</sup> June 2012 is payable on 3<sup>rd</sup> January 2013, subject to the approval of the shareholders at the forthcoming Annual General Meeting which will be held on 24<sup>th</sup> November 2012.



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#### A8. Segment revenue and segment result

Information on business segments for the financial period ended 30<sup>th</sup> September 2012 is as follows:-

	Manufacturing RM'000	Investment RM'000	Trading RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>REVENUE</b>						
External sales	30,251	165	919	-	-	31,335
Inter-segment sales	679	-	3,732	-	(4,411)	-
Total revenue	30,930	165	4,651	-	(4,411)	31,335
<b>RESULT</b>						
Operating profit	(407)	351	168	19	91	222
Interest expense						(22)
Interest income						199
Taxation						312
Profit after tax						711

#### A9. Material subsequent event

There are no material events subsequent to the end of period reported on to the date of this report which have not been reflected in the financial statement for the quarter ended 30<sup>th</sup> September 2012.

#### A10. Change in composition of the Group

There are no changes in the composition of the Group for the current financial period to date including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations.

#### A11. Contingent liabilities or contingent assets

There is no change in contingent liabilities or contingent assets since the last annual statement of financial position to the date of this report.



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#### **B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

##### **B1. Review of performance**

###### **Current quarter vs. previous corresponding quarter**

The Group recorded a revenue of RM31.3 million with profit before tax of RM0.4 million for the first quarter, down by 11.7% and 78.1% respectively compared to the previous corresponding quarter.

Performance of the respective operating business segments for the first quarter ended 30 September 2012 compared to the previous corresponding quarter is analysed as follows:-

Manufacturing segment – Revenue decreased by 11.2% or RM3.8 million in the current quarter mainly due to lower sales volume as a result of poor market demand particularly on resins coupled with lower selling prices resulting in a pre-tax loss.

Investment segment - Revenue was recorded lower by 42.4% or RM0.1 million in the current quarter due to lower dividend income received compared to the previous corresponding quarter. Profit fell by RM0.48 million compared to the previous corresponding quarter which included gains on disposal of quoted investments of RM0.44 million.

Trading segment – Revenue and operating profit were lower by 20.0% and 53.2% or RM0.2 million respectively in consequence of a drop in sales volume by 25.8%.

##### **B2. Comparison of results against the previous quarter ended 30<sup>th</sup> June 2012**

Revenue and profit before tax for the first quarter when compared to the immediate previous quarter was lower by 16.2% and 84.2% respectively. The performance of the quarter was mainly affected by the lower sales volume achieved by the resins division due to poor market demand and dampened margin due to depressed selling prices.

##### **B3. Prospects**

Despite the challenging business environment faced by the Group, the Board of Directors expects the Group to remain profitable and the financial results to be comparable to the financial year ended 30<sup>th</sup> June 2012.



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#### B4. Comparison with profit forecast

This note is not applicable.

#### B5. Income tax

Taxation comprises:-

	Current quarter ended 30/09/2012	Current year to date 30/09/2012
	RM'000	RM'000
Estimated current Malaysian taxation	(252)	(252)
Deferred taxation	564	564
	<u>312</u>	<u>312</u>

The effective tax rate of the Group for the current period to date is lower than the statutory income tax rate mainly due to reversal of taxable temporary differences arising from Property, Plant and Equipment.

#### B6. Profit before taxation

Profit before tax is arrived at after charging/(crediting):

	Current quarter ended 30/09/2012	Current year to date 30/09/2012
	RM'000	RM'000
Depreciation and amortisation	1,415	1,415
Interest expense	22	22
Interest income	(199)	(199)
Inventories written off	159	159
Income from investment funds	(280)	(280)
Loss on foreign exchange	1	1

Other than the above items, there were no provision for and write off of receivables, gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets and exceptional items for the current quarter and financial year-to-date.



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**B7. Status of corporate proposals**

There are no corporate proposals announced as at the date of this report.

**B8. Group borrowings and debt securities**

The Group's short-term borrowing as at 30<sup>th</sup> September 2012 represents a credit facility from a licensed bank bearing interest at rate of 3.75% per annum.

**B9. Changes in material litigation**

There were no material changes in litigation since the end of the last reporting period.

**B10. Dividend**

No interim dividend was declared for the current quarter under review.

**B11. Earnings per share**

The basic and diluted earnings per ordinary share of RM0.50 each are calculated as follows:

	Current quarter ended 30/09/2012	Current year to date 30/09/2012
Net profit attributable to ordinary shareholders (RM'000)	672	672
Weighted average number of ordinary shares of RM0.50 each	200,380,036	200,380,036
Basic/Diluted earnings per ordinary share of RM0.50 each (sen)	<u>0.3</u>	<u>0.3</u>



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#### B12. Disclosure of realised and unrealised profits

	As at 30/09/2012 RM'000	As at 30/06/2012 RM'000 (RESTATED)
Total retained profits of the Company and its subsidiaries:		
- Realised	103,447	103,267
- Unrealised	6,264	5,772
	<hr/>	<hr/>
Total group retained profits as per consolidated accounts	109,711	109,039

The disclosure of realised and unrealised profits is made solely for complying with the disclosure requirements as stipulated in the directives of Bursa Malaysia Securities Berhad and is not made for any other purposes.

#### B13. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23<sup>rd</sup> November 2012.